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INDUSTRIAL OWNERSHIP

ITS ECONOMIC AND SOCIAL SIGNIFICANCE

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INDUSTRIAL OWNERSHIP

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BY

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INTRODUCTION

Making no claim to being a professional economist, I feel, in submitting the suggestions of this paper about several phases of what I believe to be the world's most important economic problem, that I should submit such credentials as I have in explanation of my temerity.

Entering the employ of Cupples and Marston, Saint Louis, in January, 1867, at the early age of seventeen, I became a member of the reorganized firm of Samuel Cupples and Company at the age of twenty-two. From shortly after that time until I retired from business in 1896, a period of nearly twenty-five years, I was practically the manager of this company, which, in addition to representing as agent a large number of manufacturing concerns, was itself part or entire owner in several important manufacturing enterprises.

Among others, it owned a controlling interest in a small cordage company, which as an independent producer was an active competitor of the first great American trust, The National Cordage Company.

We were not immune, however, from the effort of manufacturers to evade in those days (say thirty or forty years ago) destructive competition through the organization of pools or combinations, and I must confess to having been an active participant in that phase of business evolution. While pools and combinations were not then unlawful, they were discriminated against by the courts to the extent that they could not recover by legal process damages due to the bad faith of their associates.

Following this period of pools and combinations came so-called trusts, another phase of business evolution through which manufacturers endeavored, by consolidating their interests into one large corporation or into a holding company, to reduce competition and at the same time develop economies through

mass production and distribution. This concentration of power offered such opportunity for exploitation as to arouse the antagonism of the public, resulting in the Sherman Act and other so-called anti-trust laws.

Retiring from active business at the age of forty-six, I became interested as the President of the Washington University Corporation, Saint Louis, in university work; and since then practically all of my time has been given to education and similar activities. Yet I have never ceased to maintain my interest in industrial problems. Both in the University and in my research activities at Washington, as President of the Institute of Economics and the Institute for Government Research, I have been closely associated with professional economists, who, I think, agree in a general way with the contents of this paper. Both as Chairman of the Price Fixing Committee during the war, which brought me into contact with practically all of the important industries of the country, and as one of those appointed by the President to

represent the public in the Labor Conference in the autumn of 1919, I have had unusual opportunity to keep in touch with that all-important problem, the relation of management and capital to labor and the public.

As the Price Fixing Committee was compelled during the war to deal with the industries collectively, they may have been indirectly responsible for some of the energetic trade associations which are now under Government criticism. Since the failure of the National Cordage Company's monopoly effort, I have noted the influences which have led to numerous industrial consolidations and to new methods of marketing the securities they issue, with the result that the great mass of our industries have been almost unconsciously converted from a management based on an intensely personal ownership to a management based on an ownership widely distributed and therefore almost entirely impersonal. It is the far-reaching significance of this change in ownership which has induced me to write this paper.

I am, however, fully conscious of the fact that many of the arguments advanced have been much more elaborately treated by others, and some of the suggestions have been already adopted by a considerable number of manufacturers. I simply repeat them in connection with, and supported by, recent developments and my own personal experience.

I would call special attention to the attached table of industrial and banking profits. Few managers of industry themselves realize that banking under the strictest sort of government consorship and regulation is netting a larger profit on investment than some of the most efficient industries. Yet we hear certain managers protesting against too much government in business. What we need is that stability which promotes efficiency, to be had, not necessarily by less, but by better government in business.

Nothing in the paper assumes that any economic system will supplant the human equation. We may still have the exceptional

Henry Ford. The exceptional worker will become the manager or owner, and the exceptional owner-manager will continue to reap exceptional profits. The paper simply deals with the problem in its mass relation.

The author makes grateful acknowledgment of the helpful suggestions of Dr. C. O. Hardy of the Institute of Economics, Washington, D. C., and of Emeritus President Charles W. Eliot of Harvard University.

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INDUSTRIAL OWNERSHIP

CHAPTER I

The Separation of Ownership from Management

Within the last forty years there has been taking place what promises to be one of the most far-reaching and significant changes in the organization of business that has occurred within the period of modern industrial history. I refer to the change which is taking place in the essential character of the corporation as a business unit, through the progressively wider distribution of the ownership of its capital by the investing public.

Going back some forty years to the time I was most active in business, I find that practically all the active industries of which I have knowledge were either small partner-

ships or very closely held corporations. There were not more than five persons interested in any of the industries which I managed, and practically all of these participated actively in some phase of the management. In other words, it was a period of *personal management*. Ownership and management were one interest, and no one questioned the right of the owner-managers to conduct their business in the way that netted them the most money so long as they transgressed no law. Today, on the contrary, most of the owners of the stock of our leading industrial corporations have no part in the management of those corporations. Wide distribution of securities in the hands of the public has separated management from ownership.

This separation of management from ownership began to be conspicuous at about the turn of the century and was a by-product of what was then regarded as a much more important change, namely, the formation of industrial trusts. The tendency to industrial combination, which became evident in the

'80's and culminated about 1900, is familiar to all. During the four years from 1898 to 1901 inclusive, "the Era of Trust Formation," more than 300 industrial combinations were formed, and many others during the decade just preceding and the one just following. Though some of these combinations failed to hold together, the net result was the permanent transfer of a major portion of the nation's manufacturing resources to the control of the so-called trusts.

Public interest in the trust movement has centered chiefly in its monopolistic features, and it must be conceded that the strongest motive back of most of the consolidations was probably the hope that they would be able to restrict output, raise prices, and deal independently with labor. But the attainment of monopolistic power was not the most important *result.* Viewed as an experiment in monopoly the trust movement was on the whole a failure, partly because of the vigor with which public opinion opposed it, and partly because the market was too big for the

organizations set up to control it. For many years the combinations made less money for their owners than the separate units had been making previously.[1] Even during the recent period of easy "war profits" it was not the great national combinations, as a rule, which made the most extraordinary returns.

What turned out to be the most important result of the consolidations was regarded at the time as only an incident, and its full significance is not yet generally recognized. Then began the transfer of the ownership of a substantial portion of the capital of industrial corporations to a wide investing and speculative public, a portion which has tended ever since to grow larger, and is now growing more rapidly than ever.

The influences which have produced this change are interesting. There is scarcely an important industry in this country that cannot trace its success to the initiative of some

[1] Dewing, Arthur Stone, "Statistical Test of the Success of Consolidations," *Quarterly Journal of Economics,* November, 1921, pp. 84-101.

one person. As such an industry developed, competition often grew keener, and the profits showed a progressively lessening percentage on investment. Then came the promoter, who pointed out the advantages of consolidating a group of competing plants, with a purpose not only to lessen competition but also to introduce numerous economies through large-scale production, allocation of orders, and improved methods of distribution. It was argued that the big business thus created would admit of such division of responsibility and authority as would eliminate the risk and uncertainty of one-man management. It was also urged that the investing public, who were looking only for the ordinary return on investments, would pay a price for consolidated securities which would net the original owners a good profit over cost.

The trust movement in the sense of a general trend toward monopoly is dead. There is no indication of the disappearance of competition, either as a protection for the public

against exploitation or as a stimulus to efficiency. But the related movement for the diffusion of the ownership of capital is proceeding at an accelerating rate. It has been stimulated by the great increase in recent years in the number of incomes large enough to afford a margin of saving, by the Liberty Bond campaign, by "blue sky" laws, and perhaps by the superior value of tax-exempt bonds to large holders. It has been promoted by the deliberate policy of many large corporations, as is illustrated by the great increase in the number of stocks of low par value and the splitting of $100 shares into no-par stocks of lower book value. Within the last few years, for example, a number of the Standard Oil Companies, which were a long-standing exception to the tendency we are discussing, have split up their common stocks so as to make them available to the small investors, given wider publicity to their financial condition, and in some instances listed their stocks on the New York Stock Exchange. Of the leading automobile producers

only half a dozen or so preserve the character of close corporations. Innumerable cases could be cited of leading corporations in almost every line which have sought a public distribution of their securities within the last five years. The newest phases of this movement are the drives for customer ownership conducted by public utilities and the encouragement of employee ownership, adopted as a policy for industrial and commercial concerns.

The extent to which the ownership of our large corporations is being diffused among people of small means is illustrated by the attached table,[2] which shows the number of investors in the preferred stock of three subsidiaries of the American Telephone and Telegraph Company, the vocation of the stockholders, and the number of shares held by each. The same picture would hold not only for the three or four other associated companies which have preferred stockholders, but also for the common stock of the

[2] See Appendix I.

American Telephone and Telegraph Company, which has over 340,000 stockholders.

In the annual report of the Bell Telephone Securities Company (another subsidiary of the American Telephone and Telegraph Company), attention is called to an issue in November, 1923, of the Pennsylvania Bell Telephone Company (also a subsidiary of the American Telephone and Telegraph Company) of $20,000,000 of 6½ per cent preferred stock, offered to the residents of the State of Pennsylvania. The amount of stock for which any one might apply was limited to twenty shares, and yet the applications, almost entirely from telephone users, amounted to 621,669 shares, or more than three times the amount of the offer. The public lighting companies in many of the large cities have pursued the same policy, to the end that a large number of their securities are now owned by their customers and other small investors.

As an indication of the small proportion of corporation stock owned by the manage-

ment, I quote from a letter received from the President of one of the large national corporations or so-called trusts, as follows:

"You may be interested in the following facts: of the 8069 stockholders in this company over 90 per cent own 100 shares or less. All of the directors combined with their relatives and friends whom they could control do not own 10 per cent of the outstanding capital stock."

Again, we find in nearly every large city the common and preferred stocks of some of the most important distributing houses (both wholesale and retail) are traded in through the local stock exchanges every day. It requires no stretch of the imagination to discern the possibility that through increased production per capita and through the distribution of this increase in an increased wage, ownership will eventually be diffused among the largest part of the population. Thus we may come as near to a realization of the aspiration of socialists as is consistent with the maintenance of the industry

and thrift which private ownership has fostered and which has made civilization possible.

The immediate and inevitable result of a distribution of stock to the public is, as was noted previously, the separation of ownership from management. Not only do the legal owners of the business cease to take a direct personal part in the direction of its affairs, but even their right to select the actual managers in effect ceases to be exercised.

No large body of people can really select their representatives any more than they can themselves administer their common affairs. In every government, every church, every university, every business or social organization, wherever control nominally is in a body too large to meet around a council board, some small group selects itself as the management. It selects itself partly by virtue of its harmony with the attitude of the larger group upon a very few conspicuous policies, but chiefly by its interest, its energy, its ability and most important of all, its

willingness to accept responsibility. Those few people who know the things that must be known, and are ready to do the things that must be done, are the ones who manage every organization, and to a surprisingly large extent they elect themselves. Figureheads come, figureheads go, but real managers stay. When a considerable part of the stock of a corporation is closely held, control is perpetuated by ownership, but when absentee owners must choose hired managers, the range of their choice is very small. The actual control, including the choice of those responsible for routine management, is exercised by the relatively small group—officers, creditors, or active stockholders, who are interested enough and have ability enough to exercise that control—and the financial results of the control exercised by this group fall only slightly on themselves. The owner's reliance is primarily on the good faith and ability of the management as witnessed by past performance. He cannot hold it closely responsible or make it carry personally the

risk of loss, even of loss due to mismanagement.

The separation of management from ownership has had two important consequences. In the first place, it has made it possible to distinguish the return to ownership from the return to management, and therefore to set up standards of a fair return for each. If we had attempted, thirty or forty years ago, to demonstrate that labor should not be treated as a commodity, and that to remedy the weaknesses in the industrial system we should segregate management from capital and endeavor to allot to capital a fair return, management would have replied, "We know of no means of segregating our 'gray matter' from our capital." Many like myself would probably have said, "We have not enough of either to segregate." Yet the segregation has gone far enough to make it possible to form an opinion of the separate value of capital in large-scale industry and to judge whether the return in a particular enterprise is excessive. Facts and figures bearing on

this point are presented later. In the second place, the separation of management from investment is bringing about a change in the ideas of managers about their own responsibility. As management ceases to represent merely itself, it comes to feel a responsibility not merely to the stockholders but also to labor and to the public. Before discussing the effects of this change, however, we must give brief attention to certain other changes which have been taking place at the same time.

CHAPTER II

Management Now a Trustee

This widespread diffusion of ownership and the increasing sense of responsibility of management to all the interested parties, point to a satisfactory solution of "the industrial problem." On the one hand, they point to the possibility of getting rid of restrictions on the freedom of management which may have been necessary to prevent exploitation but have operated to prevent the expansion of production. On the other hand, they create the probability that the benefit of such expansion of output will be diffused among the employees and among consumers of the product, instead of accruing merely to the owners.

Before considering in detail the way in which this change has influenced the problem of industrial control, however, it is necessary to give attention to certain other changes

which have taken place in the powers and duties of the corporation manager himself. As was noted previously, in the day of concentrated personal ownership there was little disposition to question the owner's right to do as he pleased with his own possessions. The whole tradition of the nature of ownership had been carried over from the times when property was owned in small units, and when the uses to which property was put made little difference to any one but the owner. Barring such exceptional uses as constituted a nuisance or a menace to the property of others, the owner was free to use his property as he pleased. Any income which it brought was his, and the risk of loss from its misuse was also his. This is what ownership meant in the days of simple agricultural and handicraft organization, and is substantially what it continued to mean as a larger scale of production and a corporate type of organization came into vogue, first in commerce, then in transportation, and finally in manufacturing.

This simple conception of ownership worked well under the conditions of its origin. It put the gain from good management, industry, and thrift, and also the loss from slackness, recklessness and poor judgment, as squarely and immediately as possible on those whose decisions were responsible for the gain or loss. It was a powerful agency in bringing about the accumulation of capital and the advance of the industrial arts.

But under the system of large-scale production which appeared in the nineteenth century this old conception of private property did not fit so well. Too many people besides the owner came to have an interest in the results of corporate management. It could no longer be said that whatsoever a man sowed, that should he also reap. His laborers, his customers, his fellow-townsmen, his fellow-countrymen, all reaped with him. The owner retained control of his property and the right to the returns from its use, but the risks of loss and suffering from his mismanagement were spread over a large and in-

creasing number of others. Moreover, good management, from the owner's standpoint, was more and more likely, as the scale of business grew, to mean bad management from the standpoint of the public. As single business organizations grew large enough to dominate the markets in which they bought and sold, the owners gained power to exact an excessive reward for their own services and for the use of their own capital.

This evil need not be exaggerated. The captain of industry of the late nineteenth century was, of course, not the absolute despot whom radical writers have often described. He did not fix his own compensation without any regard to the value placed on his services by the public whom he served, nor did he possess arbitrary power to fix the wages of his workmen. But the principle of industrial organization after all was that of autocratic rather than of representative government. Labor was regarded as a commodity to be bought at the lowest market price. The public was a market to be culti-

vated by selling it goods for "what the traffic would bear." The owners of the business had no more responsibility for the welfare of their employees or of the consumers of their products than did the owner of a kit of tools under the handicraft system of the Middle Ages. Management and capital collectively constituted ownership, and industry was administered in the interests of ownership. Profits were high and profiteering was not distinctly disreputable.

There came about, however, a gradual recognition of the evil possibilities which resulted from the carrying over of the ancient legal concept of unlimited ownership into a social setting where its significance was very different. This recognition gave rise to such a variety of protests as the anti-trust movement, militant trade unionism, socialism, and the demand for "industrial democracy." Widely as these movements differed as to the specific point on which they center the attack, they all arose from the same evil. The right to accumulate and use property at pleasure,

though it still served a useful purpose, was conferring upon a few individuals more power and larger rewards than ever before, and more than was felt to be right or necessary. Though much less in degree, the public dissatisfaction was parallel to the dissatisfaction with unrepresentative government which had appeared in the immediately preceding century. It manifested itself most effectively in three ways:—first, in the rise of militant trade-unionism on a national scale; second, in the growth of a body of anti-trust legislation; and, third, in the appearance of new standards of business ethics.

Trade-union leaders and the labor press have as a rule been hostile to the growth of great industrial combinations. The result of this opposition has been the growth of a system of centralized national unions, paralleling the growth of national industrial organization. These unions, in spite of some notable failures in conflicts with employing corporations, have become increasingly effective. Their efforts have resulted in restric-

tions of efficiency which have been costly, both to labor and to the public, but they have been effective in securing a wider recognition of the just claims of labor to improved living conditions.

Likewise, the opposition of the consuming public to the menace of too powerful corporate management has been costly but to a large extent effective. It has expressed itself in legislation which has stopped, for the most part, the abuses which led to its passage but has often prevented the use of the most economical methods of production. Both these forces—the pressure of militant unionism and the pressure of the consuming public—have curtailed the independence of managers and gradually changed the objectives of corporation policy. And gradually these enforced changes have reflected themselves in the standards of managers themselves, so that some practices which were once deemed perfectly legitimate competitive practice, are now beneath the dignity of a self-respecting executive.

This pressure from the outside in the direction of new objectives of corporation management has been reinforced by the trend toward diffusion of ownership, to which reference was made in Chapter I. The more completely management is separated from ownership the more it comes to be regarded as the representative of all the coöperating parties and conflicting interests, and not simply of the stockholders. Managements come more and more to regard it as their duty to give the stockholders a fair return on their capital, commensurate with returns from other similar investments, the risks run being considered, but not to squeeze out for them the last cent of dividends that can be obtained. And coördinate with their responsibilities to the shareholders they recognize their responsibility to labor to secure for it, as a coöperating factor, a return sufficient in amount and regular enough in its flow to remove grounds of suspicion and opposition to management's policies, and to furnish an incentive for genuine coöperation—a very

different conception from that of labor as a commodity to be bought at the lowest market price. To the public, likewise, management comes to feel a responsibility to give the best service for which the public is willing to pay the cost, including in cost a fair return to labor, capital, and management, all three.

Objection may be raised to the separation of management from ownership on the ground that absentee ownership has traditionally resulted in a type of management more ruthless in profit-seeking, more indifferent to the reasonable demands of labor, and more grasping in its attitude toward the public than has the management of property by owners. That there is some basis for this objection cannot be denied; but it is based on observation of a totally different type of absentee ownership from that under discussion. Absentee ownership is indeed worse than direct owner management when the plant is owned by a single individual or family who select the management and hold over him from a distance the threat of discharge

unless he secures from the property the maximum return for his employers. But absentee ownership, where the owners are a large and rapidly changing body of investors, though it may be no more interested in the human aspects of the industrial problem than the English absentee landlord in Ireland or the Palm Beach owner of a New England cotton mill, is an ownership much less capable of bringing pressure to bear in favor of its own selfish interests, much less antagonistic to rival corporations, much more content to accept from one industry a return no larger than it could get from others.

Thus, while the trade-unions and the politicians have been increasing the external pressure on the manager, the internal pressure from the stockholders has decreased. Management is thus coming to occupy the position of trustee, and to maintain its position it must serve the public with the greatest efficiency consistent with a fair return to labor, and with the return to capital necessary in order to keep it in industry. This change is

not yet complete. It is a trend rather than an accomplished fact, but it is a very promising trend. The results of this readjustment of the influences which control managers we will consider in Chapter III.

CHAPTER III

The Responsibilities of Corporate Management

The changes outlined in the preceding chapter have a pronounced bearing on the problem of control of industry. Instead of independent owners controlling industry in their own direct personal interest, we find many of the larger corporations in the hands of managers who own comparatively little of the stock and who must take into consideration all the interests that demand recognition.

Analyzing this position, it is clear that the first duty of management is to keep the corporation alive. For this purpose it must first, of course, meet its necessary expenses, including cost of materials, repairs and replacements, and wages of employees, all at such rates as will obtain the required goods and

services in competition with other industries. But this is only the beginning. The corporation must either go forward, or drift backward and out. To go forward it requires a constantly growing capital which must either be accumulated out of earnings or obtained from investors. In either case some surplus earnings must be retained in the business.

If capital is to be obtained from without, interest or dividends must be paid in bad years as well as good years, and this means that a surplus must be accumulated in good years to maintain the payments in the leaner seasons. Most well-managed corporations aim, moreover, to supply a considerable part of their new capital through retention of earnings in the business. A surplus of earnings sufficient to enable a concern to offer investors safety and a steady return is quite as necessary to a corporation's greatest usefulness as are funds to meet its payrolls and its taxes.

On this point I quote again the corporation president referred to on page 9:

"It is the present policy of this company to maintain a uniform dividend rate that the Board of Trustees believe can be permanently maintained. If in any year net earnings exceed dividend requirements, the excess is put to the surplus.

"When, as in 1920, the current net earnings are less than dividend requirements, we unhesitatingly pay the dividends out of previously earned surplus in the belief that the reduced profits in any one year are temporary. The result has been that there is no violent fluctuation in the market value of our stock. The great bulk of our stockholders are satisfied with their returns and continue their confidence in the management. . . ."

Management's next problem is to pay the largest wage to labor that is consistent with the public interest, including in the term "public" the numerous other industrial groups which must pay the resultant cost. Here lies an important difference between the position of the manager of today and that of his predecessors a generation or two ago. When labor was regarded as a commodity, the manager's obligation was fulfilled by paying

for it whatever he had to pay to get it. Today public opinion as expressed in trade-union policy, in the decisions of wage-boards and arbiters, and even to a noteworthy extent in the judgments of managers themselves, demands a higher standard. The minimum necessary return to labor and to capital must be provided for first, but labor is also entitled to derive a gain from the surplus earned in the business above these necessary costs. Labor constitutes the bulk of the community for whose benefit an industrial system is maintained. A sound system of economic morality demands therefore that instead of our paying labor merely a market wage, the minimum necessary to secure its services, capital should receive the market wage necessary to secure its services, and the balance should go to labor and the consuming public.

The most pressing problem of today is how to raise the standards of living of the bulk of the working population. Capitalists and managers typically get, it will be agreed, at least as much as they need to maintain an

adequate standard of living. If the incomes accruing to them continue to grow, it is desirable that the bulk of the increase should go where such increases do go, that is, into the new capital which is used for the benefit of the community rather than into higher living standards for those to whom the income accrues. But the labor group does need more actual consumable income. Great as has been the increase in real income and the improvement of standards of living during the last century and a half, it is agreed that the income of the men and women who are doing the hard work of the world is not yet large enough to give them the things which are needed for their highest physical, mental, or moral welfare. Though high wages are by no means a guarantee of welfare, they are an important and almost essential means. As the point has been stated by two students of labor problems:

"It is true that a wage is not life, culture or enjoyment. Yet unless it is ample, the gifts of a richer existence are withheld. As

life is at present organized, leisure, access to books, music, and art, and opportunity to secure competent instruction, are all necessary to intellectual development, and they are, one and all of them, accessible only to the laborer who has the necessary means. So it is too, with spiritual and æsthetic values; one who would develop in himself an appreciation of beauty, of truth, and of goodness must have enough to allow himself to be surrounded with objects possessed of these qualities and to give himself enough freedom from the strain of exacting duties to appreciate them. . . . It may well be that the intellectual, the artistic, and the spiritual are the important things of life. But, because wages are still too small to allow these riches to become the property of the many, to the great rank and file of mankind the most important of all problems is still that of adequate wages."[1]

If social progress is to continue, therefore, the first practical question which confronts us is that of finding a fund to be distributed as additional wages. To this question we will give attention in Chapter IV.

[1] Hamilton, Walton and May, Stacy, *The Control of Wages*, pp. 169-70. (New York, Geo. H. Doran Company, 1923.)

CHAPTER IV

The Compensation of Capital

In a search for income to be distributed as additional wages there is a limited number of possibilities to be canvassed. Improvement in material welfare can come from only one of two sources, an increase in the total per capita output of industry or a redistribution of the amount now produced.

Redistribution of existing income is the panacea of the agitator, who finds it easy to affirm that much of the income of the more prosperous part of the community would be more useful in other hands. But all programs of betterment through redistribution of existing income present the difficulty that they promise to bring down the upper group rather than to lift the lower. The lower paid groups are so much the larger that a very great subtraction from each large income

means an insignificant addition to each small one. Let us examine the possible sources from which we might hope to divert money into the hands of labor.

First, more than a third of corporate income is retained in the businesses where it is earned, in the form of additional capital.[1] Some of this capital of course is invested unwisely, but on the whole such reinvestment appears to be an economical way of securing capital to meet the ever growing demand for productive capacity. If we are to increase the expendable income of labor we must provide the means to produce more goods for their consumption. We cannot permanently or economically obtain goods for consumption by curtailing the supply of new capital, any more than we can obtain it by using up the stock of goods we have already on hand. To do so would mean robbing the nearby future for the sake of the present.

Neither do the salaries of managers offer

[1] National Bureau of Economic Research, *Income in the United States*, vol. II, p. 327 (New York, 1922).

a promising source of new income. Management has always been able to take care of itself; and individual salaries run into such high figures that at first glance one is apt to think that an attack on those salaries might yield something for labor, without impairing management's efficiency. The total amount paid out in this way, however, is an insignificant proportion of the final output of industry.[2] It is clear, therefore, that even if the income of the highest paid managers were scaled down to a figure within the range of wages paid to skilled laborers, the amount saved would not suffice to improve materially labor's standard of living.

Finally, there is no real prospect of bettering the condition of the workers by cutting down the share of industrial output which

[2] The salaries of corporation officials, according to the estimate of the National Bureau of Economic Research, during the period from 1909 to 1918, absorbed a fraction of the total product ranging from a minimum of 4.8 per cent in 1916 to a maximum of 6.3 per cent in 1914, the average being 5.44 per cent. *Income in the United States*, National Bureau of Economic Research, vol. I, p. 99. (New York, Harcourt, Brace and Company, 1921.)

goes to capitalists. This statement will be questioned perhaps by a larger number of readers than will question the statement just made with regard to the pay of managers, but on careful study the evidence will be found convincing. The statistical evidence points to the conclusion that capital invested in the securities of the great publicly owned industrial corporations does not earn over a term of years a larger return than is necessary to enable these corporations to compete for capital with small private businesses, banks, governments, municipalities, and other forms of investment. Disregarding such years as 1916, when the necessities of warring Europe threw extraordinary profits into the hands of a number of American manufacturers, it is only in the exceptional case that industrial corporations are making profits which exceed the ordinary rate of interest by an amount proportionate to the difference in risk. Thirty or forty years ago I knew of few successful industries, managed by their owners, which realized less than 15 or 20 per cent on their

investment, and returns of 30 per cent were not deemed extraordinary. Today, with interest rates on safe bonds higher than they were then, the largest and best organized corporations count 10 per cent on conservatively valued property a high return.

The mere fact that the great mass of industrial securities are now bought and sold on the market every day should be sufficient evidence that the returns to investors on this class of securities can be no more and no less than (all things considered) other equally safe forms of investment command. As a matter of detailed interest, however, I submit a table [3] showing the earnings of twenty large industrial corporations, the total capitalization of which is $3,395,657,800, and whose aggregate surplus is $973,793,200. From 1919 to 1923, a period including both floods and ebbs, these corporations earned an average of 7.75 per cent on their invested capital.

In these calculations the capital stock and bonds have been taken to measure the invest-

[3] See Appendix II.

ment. Surplus averaging 30 per cent has been disregarded as an offset to the "water" included in the capital stock valuation of some of the corporations. Yet, in the majority of cases it is well known among business men that on a replacement basis the investments as thus valued are understated rather than overstated. I have examined the accounts of a sufficient number of these corporations to satisfy myself that under any method of valuation the total capitalization mentioned could be easily sustained, although there may be individual exceptions. A comparison of these returns over this period of time with numerous other forms of investment, such as public utilities, banks, etc., is simply added evidence of the fact that, tried in the crucible of the market, practically all forms of investment, all things considered, find their true money value.

Calculations for all corporations made by the Treasury Department and published in the "Statistics of Income," which are on quite a different basis, point to the same con-

clusion. In these calculations the bonded debt is excluded from investment but the surplus is included. In 1920, which was better than an average year, the net return after taxes ranged, by industries, from a low figure of 4.2 per cent for the manufacture of metal products to a high figure of 20.1 per cent for paper manufactures, the average being 8.9 per cent. And during this year high-grade bonds sold to yield from 6 to 7½ per cent, and the commercial paper rate went as high as 8 per cent.

The United States Steel Corporation, formerly feared as a menacing monopoly, has through wide public ownership developed into a democratized industry. Through a perfect system of integration covering every phase of the process of steel production, from raw materials and transportation to its minutest refinements, it has become a beneficent influence in the economic life of the nation. Its history[4] for the period of five years from 1919 to 1923 inclusive, shows an earning of

[4] See Table A, Appendix II.

only 7.23 per cent on its capitalization, which includes the face value of its bonds, and its preferred and common stock. This table ignores over $500,000,000 of earned surplus, which would make the book value of the common stock more than double its face value. The corporation's books are so openly kept that no one would have any difficulty in satisfying himself that the lowest possible valuation of its property is at least as great as the face value of its securities. That any industry working as efficiently as the Steel Corporation should serve the public at so low a rate of return as 7.23 per cent, can only be accounted for by the fact that large organizations always want to work on steady and safe lines. The returns may be low but they are certain. The large daily transactions in its securities make for easy convertibility, which helps to make investors content with a low return.

Is the difference between the interest rate and the rate of profits larger than is necessary to secure the use of capital without the

special protection which is thrown around the investments of bondholders and commercial money lenders? There is no way to tell with certainty what the returns would have been if the conditions had been different, but it seems certain that owners of capital would be unwilling indefinitely to put their capital at risk for less than the competitive rate on safe loans. Capital cannot all be secured by borrowing. The favored position of the lender is due to the fact that someone else has interposed his capital between the lender's capital and the risks of the business which is borrowing. Capital will not take such risks without a good prospect of fair compensation. That the risks of investment are considerable is shown by the percentage of corporations reporting deficits to the Commissioner of Internal Revenue: 28 per cent of corporations in active business in 1919, 36 per cent in 1920, 47 per cent in 1921. On the whole, it seems clear that when profiteering appears, it is only in isolated individual instances. It does not characterize the situa-

tion as a whole. There is no reason to believe that it offers a source from which significant sums can be obtained for the benefit of the public. The gradual accumulation of capital over a long period will probably tend to lower slightly the rates of interest, thereby increasing the share of labor; but it is doubtful if this process will more than offset the tendency for the increase of population to crowd the wage scale down. *Our chief hope of making further progess is in the increase of per capita production.*

It may be suggested that labor's position can be improved without impairing that of the owners and managers, by simply raising wages and adding an equivalent amount to the prices of products. This has frequently been accomplished by the militant efforts of trade unions. The strikes and deliberately reduced production which have been union labor's chief weapon have been one of the great wastes of industry; yet considering the unjust conditions under which the laborer has been placed, the resulting wage gains

have often justified their cost. More serious objections, however, arise as soon as attempts are made to utilize this method on a large scale. In the first place, most of the output of industry is consumed by workers in other industries, so that the gain of one group from higher wages is passed on as a loss to other groups, and comes back in time around a vicious circle as a higher living cost for those with whom it originated. In the second place, such increases as do fall permanently on groups not so strategically situated serve merely to lift one group by depressing another. This process not only is morally repugnant and industrially useless, but is bound to react disastrously on the group which practices it. No single industrial group, by its militant efforts or temporarily favored position, can permanently prosper at the expense of others. No one familiar with the righteous struggle of labor through its organizations for improved living conditions will envy it all that it has been able to obtain; but it is a fundamental principle in economics

that neither an individual industrial group nor a whole nation can permanently prosper by exhausting the purchasing powers of its customers. Militant redistribution without increased production simply adds the waste of economic war to the costs of industry.

The results are illustrated by the present reduced purchasing capacity of the farmer and the consequent dullness of business and recurrent unemployment of industrial labor. A market for the products of labor is dependent on the purchasing power of the whole community, and no inequitable process of distribution can sustain itself. Any system which by the right of might only would take an unfair share must prove futile.

Increases in the efficiency of production have been the chief source of better standards of living in the past, are still proceeding, and will no doubt be the source of large gains in the future. These gains will, as always, accrue to the laboring population indirectly through the lowering of living cost and the accessibility of a greater variety of desirable

goods. How long mankind can continue to make the rapid advances which began a century ago is conjectural; but as yet there is no sign of slackening.

There are, however, vast possibilities of improvement in the utilization of technical knowledge and the equipment we now have. Industry is shackled by devices which are intended to prevent the abuse of corporate power, but which serve also to prevent the most beneficial exercise of that power. It is at this point that wide ownership by the public and the consequent broadening of the responsibilities of management come in, as new sources of industrial progress. For, if by separating management from capital, new standards of fair return for each can be set up, and if managements, by choice or by necessity, limit themselves to securing fair returns for themselves and for the stockholders, any increase in production must accrue either directly to their employees in the form of wages, or indirectly to the public as consumers.

CHAPTER V

The Changed Relation of Government to Industry

Two public measures are needed in order to enable the new sort of management to secure better productive efficiency. The first is the revision of the anti-trust laws in such a way as to permit more extensive coöperation. The Sherman anti-trust law, or some law which should accomplish substantially what it was intended to accomplish, was inevitable when so many of the business men who controlled industry controlled it exclusively in their own interest. It served as a safeguard against evils too well known to need description. But it was an expensive safeguard, for in prohibiting combinations which might prove detrimental to public welfare it necessarily prohibited interrelations which would surely have served useful public purposes.

Two such losses may be mentioned, namely, the prevention of coöperation in research, and of coöperation for stabilizing industry and flattening out the so-called "business cycle." Coöperation directed solely to improvement of technique is generally admitted to be beneficial, and if it were dissociated from coöperation between rival plants for monopolistic objects would present no difficulties from the standpoint of the public. That dissociation, however, presents difficulties.

The necessity of a stabilization program is clear. The wide swings of prices in the years since 1916, the collapse of business in 1921, and the considerable variations in business activity in 1923 and 1924 have brought about a wider recognition than ever before of the waste involved in irregularity of production. Moreover, it is clear that this irregularity is in part the price we are paying for an excessive degree of competition between large producing units. So long as business managers must make their plans each in ignorance of the other's decisions, each expanding

or curtailing his output without an opportunity to compare notes as to the probable changes in the market, or in the capacity of the public to buy goods, so long will industry be subject to alternations of excessive and deficient production.

As Secretary Hoover has said:

"I believe we now for the first time have the method at hand for voluntarily organized determination of standards and their adoption. I believe we are in the presence of a new era in the organization of industry and commerce, in which, if properly directed, lie forces pregnant with infinite possibilities of moral progress. I believe that we are, almost unnoticed, in the midst of a great revolution—or, perhaps, a better word, a transformation in the whole super-organization of our economic life. We are passing from a period of extremely individualistic action into a period of associational activities.

"Practically our entire American working world is now organized into some form of economic association. We have trade associations and trade institutes, embracing particular industries and occupations. We have chambers of commerce, embracing represen-

tatives of different industries and commerce. We have the labor unions, representing the different crafts. We have associations embracing all the different professions,—law, engineering, medicine, banking, real estate and what not. We have farmers' associations, and we have the enormous growth of farmers' coöperatives for actual dealing in commodities. Of indirect kin to this is the great increase in ownership of industries by their employees and customers, and again we have a tremendous expansion of neutralized insurance and banking. . . .

"Associational activities are, I believe, driving upon a new road where the objectives can be made wholly and vitally of public interest. The legitimate trade associations and chambers of commerce with which I am now primarily concerned, possess certain characteristics of social importance and the widest differentiation from pools and trusts. Their membership must be open to all members in the industry or trade, or rival organizations enter the field at once. Therefore, they are not millstones for the grinding of competitors as was the essence of the old trade combinations.

"Their purpose must be the advancement of the whole industry or trade, or they can-

not hold together. The total interdependence of all industries and commerce compels them in the long run to go parallel to the general economic good. The leaders rise in a real democracy without bosses or political manipulation. Citizens cannot run away from their country if they do not like the political management, but members of voluntary associations can resign and the association dies.

"I believe that through these forces we are slowly moving toward some sort of industrial democracy. We are upon its threshold, if these agencies can be directed solely to constructive performance in the public interest."[1]

It must be emphasized, however, that the purpose suggested by Secretary Hoover cannot, as he seems to imply, be accomplished without a revision of the anti-trust laws. These laws attempt to provide against every form of coöperation, agreement, or understanding which may result in a restriction of production. They apply in a thoroughly logical way the principle that the key to low prices is large supply. Hence, any efficient

[1] Hoover, Herbert, "If Business Doesn't, Government Will," *The Nation's Business*, June 5, 1924, pp. 7-8.

device for restraining production, whether it is actually in the public interest or not, is certain sooner or later to bring those who use it under the ban of the law. It is clear that we must make a choice. We cannot effect such a stabilization of industry as will make for continuity of employment, and in the long run for lower production cost, if we insist on getting at the same time the full benefit of the temporarily low prices which sometimes result from errors of judgment and consequent overproduction under a system of unrestrained competition. In all probability it will not be found possible to legalize a system of intercorporate communication and coöperation sufficiently comprehensive to be of great service in equalizing the flow of production, without giving some opportunity for monopolistic practices; but the attempt is worth making. Our present method of restraining monopolistic practice is not so thoroughly satisfactory that we cannot afford to experiment with it.

Here lies the significance of a wide dif-

fusion of the ownership of corporation securities. It weakens management's incentive to utilize every permissible form of coöperation in order to *restrict* production and enhance profits. It substitutes an incentive to utilize coöperation rather than to stabilize production, and thereby to stabilize employment, wages, prices, and profits. The time has already arrived when we can safely proceed to liberalize our anti-trust laws so as to permit trade associations to do everything which will promote stability in industry and will prevent the wide fluctuations in business activity which are responsible for misdirected production and much unemployment.

What has been said may be interpreted by some as simply a veiled plea for the adoption of a *laissez faire* policy with the corporation executive in undisturbed possession of all the personal advantages of the former owner-manager, and with the added advantage of relative freedom from personal financial risk. This is not at all what is intended. No system of large scale organization in business, in

government, or in any other field of human interest can function well unless most of those to whom the management is delegated regard their power as a trust. Control of big business, as of every large organization, must always be in the hands of the few. For large-scale organization to work at all, a keen sense of responsibility must be felt by the majority of those to whom power is entrusted, and some system of penalizing the irresponsible minority must be provided.

The development of corporations in the last one hundred years would have been impossible, if we had not had a high standard of fidelity of corporation officers to their duty to the corporation itself—just as the development of a representative government would not have succeeded without a fairly high standard of fidelity on the part of political officials to their duty as representatives of the interests of the voters. Glaring exceptions, like the life insurance scandals and the New Haven fiasco in the field of corporate management, the Star Route frauds or Tea-

pot Dome in the field of politics, attract attention to our failure to make such standards uniformly effective, but they do not imply the absence of such standards.

To quote Secretary Hoover again:

"First, there must be organization in such form as can establish the standards of conduct in this vast complex of shifting invention, production and use. There is no existing basis to check the failure of service or the sacrifice of public interest. Some one must determine such standards. They must be determined and held flexibly in tune with the intense technology of trade.

"Second, there must be some sort of enforcement. There is the perpetual difficulty of a small minority who will not play the game. They, too, often bring disrepute upon the vast majority; they drive many others to adopt unfair competitive methods which all deplore; their abuses give rise to public indignation and clamor which breed legislative action."[2]

The details are a matter for investigation and careful study, and it is impossible to formulate a program without more thorough

[2] Article previously cited, p. 46.

study than the subject has yet received. Experience under the Federal Reserve Act, valuable as that Act is, has proved that industrial stabilization cannot be secured through banking control; we must study the industrial control itself. To work out the details of a system of control we need to employ the best brains of the country in as thorough a study of the question as that which led to the passage of the Federal Reserve Act itself.

The essential thing is that we shall recognize the importance of the issue and realize the extent to which the spread of public ownership and the standardization of earnings have contributed to the solution, and so set in motion the machinery for a comprehensive investigation looking to a revision of the entire restrictive machinery from the Sherman Act of 1890 to the Clayton and Federal Trade Commission Acts of 1914, together with the accompanying body of state regulation. The aim in such restriction must be to penalize the *abuse* of power instead of the *possession* of power.

There should probably be greater freedom for competitors to combine, so long as the number of competitors remains large enough to furnish a competitive stimulus to managerial efficiency. The tradition that any reduction in the number of competitors tends to destroy a safeguard against extortion was never well grounded, and it has now less basis in fact than ever. Monopoly is undesirable in most lines of business; but the concentration of control into a relatively small number of well financed and well managed companies will usually mean a gain in efficiency and a steadier market. We have now definitely recognized the advantage of an absorption of weak railroads into strong systems, and we shall eventually recognize that the same process is beneficial in many lines of industrial activity.

One other element of our program can be formulated without hesitation, namely, a provision for uniformity and publicity of corporation accounts. This is necessary for the protection of all the interests concerned.

Neither the stockholders, the employees nor the public can hold management responsible for its use of power without full information. The law might well provide in licensing trade associations for a uniform system of accounting and reports of members made under penalty which would greatly enhance their reliability. It might provide for weekly publication of production, prices, unfilled orders on hand, and other information such as the United States Steel Corporation is accustomed to give, which would serve to protect the public from exploitation. Such publicity would also in the long run be of great benefit to the corporation managers themselves, enabling them to adjust production schedules more evenly to demand, and avoiding the waste of speculative booms.

With managers enjoying this access to information about one another's operations, it may become necessary to confer upon some governmental body regulating power to prevent its abuse. The objective in any such regulation should be the protection of the con-

suming public against extortion, however, rather than the protection of weak competitors from elimination.

Efficiently managed corporations have nothing to fear from intelligent public supervision designed to protect the public and the trade alike from grasping and intractable minorities. The popular slogan of less government in business and more business in government might in time take the form of wiser government in business to the end that the people be better served.

CHAPTER VI

The Changed Relation of Labor to Industry

The case for a liberalization of trade union policy is similar to that for a liberalization of the anti-trust laws; for just as the anti-trust laws originated in a conflict of interest between the management and the consumer, so militant trade unionism originated in a conflict of interest between the management and the workman. Just in proportion, therefore, as we develop a standard under which managers are the genuine representatives of the interests of their employees as well as of the stockholders, the function of the trade union ceases to be one of warfare and comes to be one of coöperation. Herein lies the possibility of an increase of industrial production as great as that promised by legalizing coöperation between managements. It is

well known that labor possesses vast untapped resources of productive power which cannot be made use of so long as management and labor stand in the attitude of mere bargainers, each striving to get the better of the other. Labor's opposition to the introduction of labor-saving machinery retards the improvement of technique. So do many of their regulations concerning the classification of jobs, the shifting of men from one task to another, the method of payment, and other working conditions. All regulations which aim to curtail productiveness (beyond the necessary safeguards against excessive strain and too long hours) serve merely a bargaining purpose. They may help those who are strongly entrenched, but they do so at the expense of others; and usually their cost to the many is out of proportion to their value to the few.

On the other hand, managements which treat labor as a commodity to be bought at the lowest price engender in laborers the purpose to deliver as little effort as possible for

their wages. In dealing with the problem of increased production we must not forget that the will to produce is of vital importance. It is not simply by adjusting hours, days and wages that a workman's efforts are called forth. Large scale production is a coöperative process and it is essential that management, in the first instance, and the workers in the second, shall bring to it a spirit of coöperation, if anything like efficiency in production is to be obtained.

For the accomplishment of this end the first and most essential thing to be done is to free labor from the fear of unemployment; for so long as there hangs over the workman the constant risk of working himself out of a job his efforts are bound to be directed in some measure to "nursing the job" rather than maintaining production. In meeting this situation such policies as were suggested in a previous section, looking to the stabilization of production through inter-company control, should be of large value, for the greatest source of unemployment is the instability of

the industrial process itself. For example, between the middle of 1920 and the end of 1921 industrial and agricultural employment in the United States shrank 14 per cent, and practically all this loss was recovered within the following year. The loss from such fluctuations is measured not merely in the idle time which it entails but also in the check to efficiency which later results from the laborer's memory of such experiences; for, rightly or wrongly, he is convinced that such slumps are due to excessive industrial activity and are to be prevented by a policy of "stepping down."

Stabilization alone will not suffice, however. In spite of our best efforts there is bound to remain a considerable amount of unemployment, some caused by seasonal conditions, some by changes in the location and structure of plants, and some by the coming and going of individual managers. Against this risk the only feasible safeguard seems to be the development of unemployment insurance. In spite of the great improvements

in insurance during the last few years, unemployment insurance has received little attention; and this is especially true in this country. Indeed, of all important insurable risks, the employment hazard probably is taken care of least satisfactorily. An individual workman and an insurance company cannot handle that risk as readily as they can those of fire and sickness and death. The difficulties in the way of individual insurance against unemployment have been summarized as follows:

The chief obstacle to the writing of such insurance arises from the wide variation in the hazard on different individual risks; the difficulty in measuring this difference; and the certainty of serious adverse selection in case such measurement is not effected and utilized in rate-making. If flat rates were charged, without attention to individual variations in employability, there would undoubtedly be a tendency for poor risks to insure and the good risks, the men who rarely have trouble in finding jobs, to carry their own risk. There is also to be considered the possibility that kind-hearted employers, con-

fronted with the necessity of reducing forces, would deliberately select for dismissal those who were protected by insurance against unemployment. For these reasons, the ordinary form of insurance, which looks to the self-interest of each individual to induce him to take out such insurance as he needs, does not meet the situation.[1]

It does not seem probable that the difficulties in the way of insurance against unemployment can be overcome by the efforts of private insurance companies or those of the workmen. The great success of group life insurance, however, points the way to the possibility of introducing some similar form of group insurance against unemployment. In group insurance the difficulties of individual rating are eliminated, and the costs of selection, collection of premiums, and administration are greatly reduced.

The general adoption of laws which place the cost of industrial accidents chiefly on the employers has resulted in a reduction in the

[1] Hardy, Charles O., *Risk and Risk-Bearing*, p. 342. (Chicago, The University of Chicago Press, 1923.)

number of accidents. This has come about because the laws have placed the burden upon the whole group who are primarily responsible for the occurrence of accidents, without attempting to fix immediate responsibility in every individual case. Mutual insurance, either through voluntary associations of employers or through state appropriations, has distributed the risk widely enough so it can be carried without unduly burdening any one employer, and at the same time concentrated it sufficiently so that each contributor has an interest in keeping down the hazard, both in his own plant and in the industry at large.

A similar principle might well be applied in dealing with the risk of unemployment. The financial risk of involuntary unemployment should be placed chiefly on industry, but it should be done in such a way as to make the system preventive of unemployment and not merely a means of supporting the unemployed. Premiums should not only vary from industry to industry but should, if possible,

be graded so that individual firms would be penalized if their records were worse than the general records of the particular industry in which they are engaged.

While it is to be anticipated that the creation of such a system of insurance would ultimately result in a reduction of the amount of unemployment, the value of the system would not depend on its success as a preventive measure. Even without any noticeable reduction in the amount of unemployment, such insurance if properly managed would be worth its cost. Its primary purpose and most important effect, from a financial standpoint, would be to enhance the efficiency of labor through removing the fear of unemployment. For this purpose the insurance should be as liberal as it can be made without creating a preference for unemployment. The less the loss from idleness, the less the incentive to hold back and "nurse the job."

Such a plan of insurance as is here vaguely outlined would necessitate the coöperation of large numbers of concerns in a single indus-

try, and a considerable degree of governmental supervision. Its feasibility would depend not so much on the development of insurance technique as on the extent and character of coöperation in industry resulting from the proposed reform of the anti-trust laws.

Another way in which corporation managements can do something to encourage and justify a coöperative attitude on the part of labor is through the introduction of a larger degree of labor representation in the management itself, an innovation which is now on trial by many industries. As widely diffused ownership deprives the stockholder of any direct personal supervision of his interests, and as labor is overwhelmingly interested in retaining capital in industry, why is it not, not only good democracy, but good business for the stockholder to give labor an important voice in the choice of management? Certainly if managers are to be regarded as the real representatives of all interests concerned it would be inconsistent to maintain

the system of choosing them by the vote of stockholders alone.

Finally, the wider publicity which was urged above as essential to a liberalization of our anti-trust laws is equally essential to a liberalization of trade-union practice. Publication in fullest detail of prices, profits, salaries, wage scales, and underwriting profits, will not only contribute to a better coördination of production by competing groups and to lessened hostility, but will do more than will any other measure to promote wholesome relations between labor and management. So long as managers withhold from their employees the details of their financial operations, so long will it be difficult to shake labor's conviction that capital is getting more than its fair share of the product of industry. Capital has much to gain and little to lose by showing its hand to labor.

CHAPTER VII

Capital Accumulation and the Fear of Overproduction

One result of the diffusion of ownership remains to be considered—its effect on the problem of supplying the world's need for new capital. Until the rise of the industrial corporation there was no way in which new capital could be provided except through the voluntary savings of individuals. As comparatively few individuals combined the willingness to save with the ability to produce beyond their needs, capital accumulation was slow and the control of capital rested in few hands.

The rise of the corporation as a leading form of industrial organization facilitated saving in two ways. In the first place a large and rapidly increasing proportion of the new capital has been provided through surpluses

left in the businesses where they originated, and to a less extent through outside investments made by corporations out of their earnings. Saving has thus been accomplished without conscious effort on the part of the owners of the businesses. In the second place, saving has been facilitated by the opportunity of safe investment in corporate securities, without the labor and responsibility of personal management.

Until recent years the most important source of new investment capital has been the savings of the very rich, those whose income accrues so rapidly that its saving has become automatic. Such income can hardly be regarded as a personal possession at all. I presume Mr. Ford would tell us that, after all, he is only a trustee for the vast accumulation of capital incident to the economic genius he has displayed in the development of his enormous industry; that he is personally using so small a portion of the vast earnings of his company as to make ownership utterly impersonal; that he is investing and re-investing

this accumulation in such manner as gives employment to constantly increasing numbers, with a rising scale of wages.

With rising wages and an increasingly wide distribution of dividends and interest, the savings of the mass of the population have become more important, and are now an important supplement to the other two sources of capital which I have mentioned. Thus the diffusion of ownership has not only benefited the individuals who have been led to increase their personal savings, but has promoted the accumulation of the capital needed to carry on the industrial process.

The necessity of these sources of new capital, or some substitute for them, is frequently overlooked, especially in discussions of taxation. We hear upon one hand arguments, many of which have been converted into law, to the effect that the public interest will be best served by breaking up large accumulations of wealth through income and inheritance taxes; and we hear also the reverse argument that the world's accumulation

which has made civilization possible is the result of those large fortunes which in the very nature of things are immune from consumption, simply because their owners can consume so small a portion of the income. Had the surplus of the world been divided equally, it is argued, such is the pressure of individual needs and desires that little of it would have been saved.

Without regard to the merits of either side of this controversy, it is interesting to note that corporate ownership of industries seems to insure, as no individual ownership even can, the methodical increase in the world's savings so essential to the ever increasing demands and needs of society. No corporation can stand still; it either goes backward or goes forward; and corporation management's first duty is to insure the permanency of the corporation by husbanding such portion of its earnings as may be necessary to supply society's increasing need of capital. The history of corporation management shows from the periodic increase of surplus that they are

alive to this necessity. This surplus acts as a reservoir out of which to make production, employment, and dividends on stock—all three—steady, steadiness being the most satisfactory quality in any industry for all concerned.

The emphasis I have laid on means of increased production may raise the question: What of those industries which are suffering already from overproduction? Is there a limit to the world's needs for manufactured goods, and if so, is there need of protection against overproduction?

The answer is threefold. In the first place, overproduction in whole industries is to a large extent the result of underproduction in other industries. The overproduction of farm products and of certain metals today exists because a large part of the world has ceased to produce other goods with which to pay for the products of these overdeveloped industries. Henry Ford tells us that there is no such thing as overproduction or saturation of the market on any commodity, until

every industrious person has everything he or she needs or desires; it is simply a process of ever increasing production per capita and of distribution through an increased wage. He seems to have demonstrated his right to an opinion, having reduced the cost of an automobile to the lowest unit price in the world, while at the same time paying the highest relative wage in the world, and incidentally accumulating one of the largest fortunes in the world, all within the short period of twenty or twenty-five years.

Second, there is need of some coördinating agency to minimize the danger of certain industries running ahead of the best volume of production. Indeed it is one of the greatest weaknesses of the present system of regulating industry that it permits no adequate provision for doing this very thing. Falling prices and slackening orders are the best signals the manufacturer now has to warn him against undue optimism, but they are very likely to warn him too late. Direct comparison of orders and of production schedules,

such as was suggested in Chapter V, would make possible an evener flow of production. We have refused to permit this in the past because the same means which would suffice to protect us against overproduction and disastrous slumps might also be used to bring about arbitrary curtailment of output in the hope of securing monopoly profits.

Finally the remote danger of general overproduction will be anticipated in the future as it has been in the past by the progressive tendency toward a shorter working day and a smaller number of working days in the year. One can conceive of a production of commodities to the point where further material products would give less satisfaction than an increased amount of leisure. It is in this way, indeed, that a large part of the gain from the improved technique of industry and of industrial organization has been distributed in the past. The shortening of the working day, the Saturday half holiday, the annual vacation, and the diminished physical effort during the day's work, all show that civilization

can give more leisure to the mass of the people as well as distribute an increasing quantity of goods. This process may, by and large, be trusted to take care of itself. The changing organization of industry and the changing concept of managerial responsibilities, about which this paper centers, bring in no new difficulty in making this adjustment; indeed, they facilitate it. The more widely the securities of our industries are distributed, the less clear becomes the division of the community into groups of capitalists and laborers, producers and consumers, and the more readily can industrial policies be shaped to promote the greatest good of all.

CHAPTER VIII

Conclusions

The preceding pages are intended to show briefly that the Capital-Labor problem, the many phases of which have been so long under discussion, is in process of solution through the wide distribution of industrial ownership among relatively small stockholders.

Tables are submitted showing the wide distribution of the stock of representative public utility corporations, and attention is called to the policy pursued by many industrial corporations in distributing their securities to the public and especially in encouraging the purchase of stock by their employees. From this distribution of ownership, and from other changes which accompany it, the following consequences are appearing:

(1) As industrial securities become widely distributed among small investors it becomes practically impossible for the owners to keep in touch with, and exercise any intelligent control over, management. As such stockholders are as a rule content with a reasonable but reliable return on their investment, labor thus has the most direct interest in the efficiency of management, so that the so-called democracy or labor representation in industry is for the best interest of the stockholder.

(2) This diffusion of ownership is so segregating ownership from management as to place capital in industry upon an investment basis similar to that of capital in banking and other activities, thus simplifying the answer to the question: "Is capital in industry exploiting labor?" I submit tables showing the profits of twenty of the largest widely owned industrial corporations for each of the five years from 1919 to 1923, and the profits of the national banks of the country for the same period. These industrials with an ag-

gregate capital (the face value of their bonds and stocks) of $3,395,657,800 and an aggregate surplus of $973,793,200 showed an average net return of 7.75 per cent per annum on *capital* while the national banks for the same period earned 10.01 per cent on their combined capital and surplus, and 8.34 per cent on capital, surplus and undivided profits.[1]

Since it is shown that capital and management in industry are now, and have been for years, receiving no greater compensation than capital and management have been receiving in non-labor-employing activities (such as banking, etc.), and therefore the minimum necessary to retain them in industry, it follows that

(3) The problem now is a Labor-Public

[1] In order to satisfy the question which naturally arises as to the actual value of the industrial investment as compared with the censored and supervised valuation of national bank investment, I have ignored the industrial surplus (which is about 30 per cent of the face value of bonds and stocks). Hence the figure submitted on industry represents the return on face value of bonds and stock only. It is believed that this establishes a reasonable basis of comparison.

problem rather than a Capital-Labor problem, and that

(4) If any industrial group by militant methods exacts more than its fair share of production, it does so at the expense of other groups. This inevitably leads to group or bloc warfare, ending in the vicious circle of each raising the cost of living upon the other, adding the waste of economic war to the waste of our present industrial system.

(5) The problem of continued improvement in the living condition of the workers is not a problem of the redistribution of present production, but a problem of *increased* production per capita, as we cannot distribute more than we produce. As capital and management are now adequately compensated for their service, this increased production should go to the producers and the public. This brings us to a study of the present waste in industry as a first means of increased production. If, as is claimed, efficiency in industry is now hampered by anti-trust laws and by the wasteful methods of organized

labor caused largely by the menace of unemployment, it follows that the needed increase is to be attained by two principal means; first, the modification of the restrictive provisions of the anti-trust laws, and second, the elimination of restrictive practices of trade unions and individual workers.

(6) To accomplish the first purpose requires as a preliminary an expert investigation of the problem in both its legal and its economic aspects. The program resulting from such an investigation would probably include provision for greater freedom of competitors to unite, to exchange information, and to coöperate in the public interest. It would certainly include provision for uniformity and publicity of corporation accounts.

(7) To accomplish the second purpose it is necessary to convince labor that capital is receiving only a fair return, and management only a fair compensation for service, to develop and maintain a recognition on the part of management of its responsibility to secure

for labor the largest return consistent with fairness to the public and a just return to stockholders; to reduce the violence of the alternations of prosperity and depression through industrial coöperation and otherwise; and to provide by insurance as full protection as possible against unemployment. The accomplishment of these purposes requires not simply new machinery, but a constructive, coöperative policy on the part of labor, the public, and the management of industry.

As these principles gain wider acceptance we may hope that coöperation will take the place of blind competition in industry, and coöperation between the industries and labor will take the place of the present wasteful system of bargaining. We may thus attain an economic democracy which will scale with our political democracy. This I believe to be the present trend of industry in this country.

APPENDIX I

The Growth in Consumers' Ownership of Certain Public Utilities

APPENDIX I

The Growth in Consumers' Ownership of Certain Public Utilities

Attention is called in Chapter I to the growing importance of what is known as "consumers' ownership" of public utilities. This has been especially notable in security sales campaigns by gas and electric lighting companies and the telephone companies. It is interesting to note from the following table the wide diffusion of these securities as illustrated by the situation in three telephone companies. Stockholders numbering 97,833, representing ninety-eight vocations, own 560,033 shares of stock, or a fraction less than 6 shares for each stockholder. It is also interesting to note the little variation in the individual holdings in the more important groups. Nearly 11,000 clerks hold about 4 shares each; over 11,000 telephone employees own a fraction less than 3 shares each; nearly 20,000 housewives own approximately 6

shares each; over 4,300 executives hold a fraction less than 10 shares each; 1,247 bankers and brokers own a fraction less than 18 shares each.

As before noted, the 340,000 stockholders of the American Telephone and Telegraph Company present approximately the same picture.

Consumers' ownership is bound to become an important influence in the discussion of government ownership of public utilities.

BELL TELEPHONE SYSTEM

SOME OF THE SUBSCRIBERS TO THE PREFERRED STOCK ISSUES OF THREE ASSOCIATED COMPANIES

Occupation	*Subs.*	*Shares*
Actors	44	244
Agents	79	6,715
Architects	148	1,383
Artists	158	960
Associations	36	388
Attorneys	928	11,731
Bankers & Brokers	1,247	21,610
Barbers	585	2,339
Bartenders	58	428
Blacksmiths	207	873
Boat Builders	34	103
Book Binders	5	25
Bookkeepers	2,627	13,837
Bricklayers	156	870
Builders	730	6,536

Occupation	*Subs.*	*Shares*
Butchers	566	2,775
Candy Makers	31	56
Capitalists	24	712
Caretakers	8	18
Carpenters	797	3,123
Cashiers	42	78
Caterers	26	199
Chauffeurs	724	2,870
Chemists	164	1,092
Chiropractors	133	729
Cigar Makers	24	54
Clergymen	491	3,172
Clerks	10,732	43,982
Cooks	458	2,271
Dairymen	8	22
Dentists	595	4,615
Doctors	1,971	20,058
Domestics	498	2,384
Draftsmen	303	1,357
Dressmakers	1,003	4,152
Druggists	783	4,431
Dry Cleaners	17	28
Electricians	533	1,790
Engineers	1,205	8,916
Estates	60	761
Executives	4,347	42,178
Farmers	914	5,228
Firemen	120	334
Florists	198	1,455
Foremen	977	4,909
Fruit Dealers	59	392
Geologists	6	49
Govt. Empl.	1,588	7,690
Grocers	879	4,696
Hotel Employees	668	2,605

Occupation	*Subs.*	*Shares*
Housewives	19,597	119,331
Ice-men	24	142
Inspectors	328	1,440
Ins. & Real Estate	1,413	13,263
Janitors	228	726
Jewelers	207	1,552
Laborers	1,596	4,843
Librarians	73	344
Lumbermen	22	153
Manufacturers	217	3,332
Merchants	1,054	5,175
Messengers	27	36
Metal Workers	961	2,715
Milk-men	56	363
Millers	26	95
Miners	159	622
Musicians	188	1,028
Newspapermen	356	1,868
Nurses	997	3,746
Oil-men	90	877
Painters	379	1,695
Pattern Makers	55	252
Pawnbrokers	2	17
Photographers	115	515
Plasterers	63	223
Plumbers	510	2,327
Porters	58	132
Printers	657	3,500
Publishers	42	407
Railroad Emp.	1,537	6,432
Ranchmen	4	9
Retired	2,362	25,576
Salesmen	4,283	28,560
Secretaries	995	6,990
Shoemakers	130	360

Occupation	*Subs.*	*Shares*
Stenographers	3,106	11,604
Storekeepers	296	1,571
Students	893	4,413
Tailors	468	2,145
Teachers	3,047	15,271
Teamsters	431	1,677
Tel. & Tel. Empl.	11,502	30,700
Textile Workers	642	2,466
Tinsmiths	163	723
Undertakers	216	1,809
Watchmen	128	613
Welfare Workers	14	37
Widows	122	1,135
	97,833	560,033

Occupations represented included 74.3 per cent of subscribers and 76.3 per cent of shares subscribed.

APPENDIX II

THE COMPARATIVE EARNINGS OF INVESTMENTS IN INDUSTRY AND BANKING [1]

[1] The data embodied in the following tables have been verified by the Standard Statistics Company.

APPENDIX II

The Comparative Earnings of Investments in Industry and Banking

Attention was called in Chapter IV to the difficulty of determining anything like an exact valuation of investment in industry. In fact, notwithstanding a government censorship of national bank values, it is recognized that the large investment of banking interests in their buildings, etc., renders it difficult even in banking to determine the exact values. These tables are submitted primarily to show the approximate earnings of two classes of investment widely owned by the public, one closely supervised by the government, the other relatively free from supervision; one employing very little labor while the other is almost entirely dependent upon labor. In order, however, to establish a comparison it is only necessary to approximate the facts.

TABLE A.—SUMMARY OF THE CAPITALIZATION, SURPLUS, NET EARNINGS, AND RATIO OF NET EARNINGS TO CAPITALIZATION OF A SELECTED GROUP OF INDUSTRIAL CORPORATIONS AND OF THE NATIONAL BANKS FOR THE PERIOD 1919-1923.

COMPANY	AVERAGE CAPITALIZATION	AVERAGE SURPLUS	AVERAGE NET EARNINGS	PERCENTAGE NET EARNINGS TO CAPITALIZATION
1	2	3	4	5
United States Steel Corporation	$1,415,209,600	$ 507,464,000	$102,299,800	7.23
Bethlehem Steel Corporation	296,331,800	11,108,800	21,405,800	7.22
Republic Iron and Steel Company	69,715,200	32,779,600	3,009,000	4.32
National Lead Company	53,603,200	21,447,400	5,043,800	9.41
American Car and Foundry Company	60,000,000	34,372,200	8,704,200	14.51
The Baldwin Locomotive Works	50,000,000	13,920,600	6,013,400	12.02
Westinghouse Electric and Mfg. Company	99,088,200	42,557,400	13,834,400	13.96
The Worthington Pump and Machinery Corporation	21,689,800	3,635,600	1,570,000	7.24
International Harvester Company	152,516,600	60,606,600	11,626,400	7.62
American Agricultural Chemical Company	87,707,000	5,316,600	1,118,800	1.28
Swift and Company	220,823,800	71,687,400	12,353,600	5.59
American Sugar Refining Company	102,000,000	11,607,800	6,920,000	6.78
Corn Products Refining Company	81,226,800	34,265,800	10,750,400	13.24
American Tobacco Company	152,455,600	24,253,600	18,748,800	12.30
American Woolen Company	78,000,000	32,276,200	7,065,800	9.06

Central Leather Company . . .	99,048,200	2,073,800	Def. 3,152,200	—3.18
Cluett, Peabody and Company, Inc.	26,185,600	7,172,800	2,649,400	10.12
Endicott Johnson Corporation . .	30,969,200	3,396,000	4,549,800	14.69
United States Rubber Company .	226,505,200	38,873,200	15,592,800	6.88
The Studebaker Corporation . .	72,582,000	14,977,800	13,194,400	18.17
Aggregate	\$3,395,657,800	\$ 973,793,200	\$263,298,400	
Average	169,782,890	48,689,660	13,164,920	7.75
All National Banks	\$1,249,237,400	\$1,450,900,000[a]	\$225,142,600	[b] 8.34

[a] Average surplus and undivided profits.
[b] Percentage of net earnings to capital, surplus, and undivided profits.

I believe that in wiping out entirely the large earned and accumulated surplus in industry a sufficient allowance has been made for possible overvaluation of the assets. Hence, as previously noted, only the face value of stocks and bonds is considered in computing the rate of return on investments in industry while the rate of return on bank investments is computed on the total aggregate capital, surplus, and undivided profits.

TABLE B.—CAPITALIZATION, SURPLUS, NET EARNINGS, AND RATES OF RETURN OF A SELECTED GROUP OF INDUSTRIAL CORPORATIONS *

United States Steel Corporation

YEAR ENDED DEC. 31	CAPITALIZATION	SURPLUS	NET EARNINGS [a]	PERCENTAGE NET EARNINGS TO CAPITALIZATION
1919 . .	$1,437,743,000	$ 493,048,000	$106,005,000	7.37
1920 . .	1,423,833,000	523,455,000	138,208,000	9.71
1921 . .	1,409,696,000	508,927,000	64,362,000	4.57
1922 . .	1,408,727,000	499,139,000	67,145,000	4.77
1923 . .	1,396,049,000	512,751,000	135,779,000	9.73
Aggregate	7,076,048,000	2,537,320,000	511,499,000	
Average .	$1,415,209,600	$ 507,464,000	$102,299,800	7.23

* Compiled from the Standard Corporation Records of the Standard Statistics Company.

Bethlehem Steel Corporation

YEAR ENDED DEC. 31	CAPITALIZATION	SURPLUS	NET EARNINGS [a]	PERCENTAGE NET EARNINGS TO CAPITALIZATION
1919 . .	$ 224,284,000	$10,058,000	$ 24,875,000	11.09
1920 . .	249,404,000	10,827,000	22,410,000	8.99
1921 . .	251,203,000	12,419,000	19,752,000	7.86
1922 . .	296,490,000	10,051,000	13,295,000	4.48
1923 . .	460,278,000	12,189,000	26,697,000	5.80
Aggregate	1,481,659,000	55,544,000	107,029,000	
Average .	$ 296,331,800	$11,108,800	$ 21,405,800	7.22

[a] Includes interest on funded debt.

Republic Iron and Steel Company

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings [b]	Percentage Net Earnings to Capitalization
1919 . .	$ 66,366,000	$ 33,881,000	$ 2,855,000	4.30
1920 . .	68,474,000	37,442,000	8,298,000	12.12
1921 . .	68,357,000	29,576,000	Def. 4,607,000	—6.74
1922 . .	68,126,000	29,995,000	1,081,000	1.59
1923 . .	77,253,000	33,004,000	7,418,000	9.60
Aggregate	348,576,000	163,898,000	15,045,000	
Average .	$ 69,715,200	$ 32,779,600	$ 3,009,000	4.32

[b] Includes interest on funded debt—estimated; in the annual statements the figure reported for interest paid includes interest on short term loans and interest on bonds.

National Lead Company

Year Ended Dec. 31	Capitalization [c]	Surplus	Net Earnings [d]	Percentage Net Earnings to Capitalization
1919 . .	$ 54,426,000	$ 18,554,000	$ 5,103,000	9.38
1920 . .	54,053,000	20,344,000	5,187,000	9.60
1921 . .	53,618,000	20,881,000	3,911,000	7.29
1922 . .	53,165,000	22,760,000	5,335,000	10.03
1923 . .	52,754,000	24,698,000	5,683,000	10.77
Aggregate	268,016,000	107,237,000	25,219,000	
Average .	$ 53,603,200	$ 21,447,400	$ 5,043,800	9.41

[c] Includes bonds of subsidiary companies.
[d] Includes interest on subsidiary company bonds—estimated; not reported in published statements.

American Car and Foundry Company

Year Ended April 30	Capitalization	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 60,000,000	$ 31,325,000	$11,772,000	19.62
1920 . .	60,000,000	32,426,000	10,401,000	17.34
1921 . .	60,000,000	35,277,000	8,551,000	14.25
1922 . .	60,000,000	36,160,000	6,583,000	10.97
1923 . .	60,000,000	36,673,000	6,214,000	10.36
Aggregate	300,000,000	171,861,000	43,521,000	
Average .	$ 60,000,000	$ 34,372,200	$ 8,704,200	14.51

The Baldwin Locomotive Works

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 50,000,000	$ 6,554,000	$ 6,771,000	13.54
1920 . .	50,000,000	11,013,000	4,929,000	9.86
1921 . .	50,000,000	13,258,000	5,544,000	11.09
1922[a] . .	50,000,000	18,931,000	5,707,000	11.41
1923 . .	50,000,000	19,847,000	7,116,000	14.22
Aggregate	250,000,000	69,603,000	30,067,000	
Average .	$ 50,000,000	$13,920,600	$ 6,013,400	12.02

[a] As of December 30.

Westinghouse Electric and Manufacturing Company

Year Ended March 31	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 81,118,000	$ 36,208,000	$15,438,000	19.03
1920 . .	81,113,000	43,436,000	15,591,000	19.22
1921 . .	111,088,000	42,265,000	15,093,000 [f]	13.59
1922 . .	111,062,000	42,324,000	8,312,000 [f]	7.48
1923 . .	111,060,000	48,554,000	14,738,000 [f]	13.27
Aggregate	495,441,000	212,787,000	69,172,000	
Average .	$ 99,088,200	$ 42,557,400	$13,834,400	13.96

[a] Includes interest on funded debt.
[f] Interest on funded debt estimated.

The Worthington Pump and Machinery Corporation

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 21,460,000	$ 4,353,000	$3,284,000	15.30
1920 . .	21,444,000	4,626,000	2,056,000	9.59
1921 . .	22,439,000	2,517,000	Def. 121,000	— .54
1922 . .	21,553,000	2,386,000	927,000	4.30
1923 . .	21,553,000	4,296,000	1,704,000	7.91
Aggregate	108,449,000	18,178,000	7,850,000	
Average .	$ 21,689,800	$ 3,635,600	$1,570,000	7.24

[a] Includes interest on funded debt.

International Harvester Company

Year Ended Dec. 31	Capitalization [a]	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$140,000,000	$ 71,645,000	$21,012,000	15.01
1920 . .	150,000,000	68,351,000	17,155,000	11.44
1921 . .	154,340,000	59,527,000	4,150,000	2.69
1922 . .	158,142,000	52,202,000	5,541,000	3.50
1923 . .	160,101,000	51,308,000	10,274,000	6.42
Aggregate	762,583,000	303,033,000	58,132,000	
Average .	$152,516,600	$ 60,606,600	$11,626,400	7.62

[a] Includes stock dividends as follows: $10,000,000 in 1920; $3,600,000 in 1921; $3,765,000 in 1922; $1,958,000 in 1923.

American Agricultural Chemical Company

Year Ended June 30	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 72,842,000	$17,080,000	$4,943,000	6.79
1920 . .	72,486,000	18,105,000	5,889,000	8.12
1921 . .	98,393,000	2,670,000	Def. 9,721,000	—9.88
1922 . .	98,024,000	1,546,000	1,452,000	1.48
1923 . .	96,790,000	Def. 12,818,000	3,031,000	3.13
Aggregate	438,535,000	26,583,000	5,594,000	
Average .	$ 87,707,000	$ 5,316,600	$1,118,800	1.28

[a] Includes interest on funded debt.

Swift and Company

Year Ended [h]	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 205,259,000	$ 88,382,000	$16,883,000	8.23
1920 . .	244,591,000	81,552,000	10,950,000	4.48
1921 . .	243,924,000	61,740,000	Def. 1,816,000	— .75
1922 . .	183,256,000	62,789,000	18,712,000	10.21
1923 . .	227,089,000	63,974,000	17,039,000	7.50
Aggregate	1,104,119,000	358,437,000	61,768,000	
Average .	$ 220,823,800	$ 71,687,400	$12,353,600	4.69

[h] 1923—Nov. 3; 1922—Nov. 4; 1921—Nov. 5; 1920—Oct. 30; 1919—Nov. 1.
[a] Includes interest on funded debt.

American Sugar Refining Company

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 90,000,000	$23,152,000	$13,251,000	14.72
1920 . .	90,000,000	12,466,000	4,405,000	4.90
1921 . .	90,000,000	7,154,000	903,000	1.00
1922 . .	120,000,000	7,201,000	10,226,000	8.52
1923 . .	120,000,000	8,066,000	5,815,000	4.84
Aggregate	510,000,000	58,039,000	34,600,000	
Average .	$102,000,000	$11,607,800	$ 6,920,000	6.78

[a] Includes interest on funded debt.

Corn Products Refining Company

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 85,861,000	$ 35,789,000	$13,875,000	16.16
1920 . .	85,534,000	43,522,000	12,723,000	14.87
1921 . .	80,159,000	45,123,000	6,369,000	7.95
1922 . .	77,418,000	29,321,000	10,300,000	13.30
1923 . .	77,162,000	17,574,000	10,485,000	13.59
Aggregate	406,134,000	171,329,000	53,752,000	
Average .	$ 81,226,800	$ 34,265,800	$10,750,400	13.24

The American Tobacco Company

Year Ended Dec. 31	Capitalization [1]	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$126,921,000	$ 49,346,000	$18,409,000	14.50
1920 . .	166,152,000	14,656,000	16,990,000	10.22
1921 . .	165,428,000	14,750,000	20,021,000	12.11
1922 . .	152,033,000	19,670,000	20,381,000	13.40
1923 . .	151,744,000	22,846,000	17,943,000	11.82
Aggregate	762,278,000	121,268,000	93,744,000	
Average .	$152,278,600	$ 24,253,600	$18,748,800	12.30

[1] Includes Script due Mar. 1, 1921, and Div. Certs. convertible into common stock and stock dividend $37,000,000 in 1920.
[a] Includes interest on funded debt.

American Woolen Company

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 60,000,000	$ 31,754,000	$11,780,000	19.63
1920 . .	80,000,000	31,509,000	4,627,000	5.78
1921 . .	80,000,000	31,915,000	6,007,000	7.51
1922 . .	80,000,000	32,606,000	6,255,000	7.82
1923 . .	90,000,000	33,597,000	6,660,000	7.40
Aggregate	390,000,000	161,381,000	35,329,000	
Average .	$ 78,000,000	$ 32,276,200	$ 7,065,800	9.06

Central Leather Company

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$101,979,000	$30,509,000	$16,127,000	15.81
1920 . .	100,890,000	4,758,000	Def.20,590,000	-20.40
1921 . .	99,330,000	Def. 6,894,000	Def. 9,230,000	- 9.29
1922 . .	97,650,000	Def. 5,366,000	3,366,000	3.45
1923 . .	95,392,000	Def.12,638,000	Def. 5,434,000	- 5.70
Aggregate	495,241,000	10,369,000	Def.15,761,000	
Average .	$ 99,048,200	$ 2,073,800	Def.$3,152,000	- 3.18

[a] Includes interest on funded debt.

Cluett, Peabody and Company, Inc.

Year Ended Dec. 31	Capitalization	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 25,000,000	$ 8,840,000	$ 5,153,000	20.61
1920 . .	26,482,000	5,771,000	1,938,000	7.32
1921 . .	26,482,000	5,185,000	275,000	1.04
1922 . .	26,482,000	7,348,000	2,751,000	10.39
1923 . .	26,482,000	8,720,000	3,130,000	11.82
Aggregate	130,928,000	35,864,000	13,247,000	
Average .	$ 26,185,600	$ 7,172,800	$ 2,649,400	10.12

Endicott Johnson Corporation

Year Ended Dec. 31	Capitalization [1]	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 29,000,000	$ 1,876,000	$ 5,054,000	17.43
1920 . .	30,929,000	1,365,000	3,242,000	10.48
1921 . .	30,957,000	2,888,000	4,657,000	15.04
1922 . .	30,507,000	5,075,000	5,642,000	18.49
1923 . .	33,453,000	5,776,000	4,154,000	12.42
Aggregate	154,846,000	16,980,000	22,749,000	
Average .	$ 30,969,200	$ 3,396,000	$ 4,549,800	14.69

[1] Includes $1,400,000 stock dividend in 1920 and $3,371,000 stock dividend in 1923.

United States Rubber Company

Year Ended Dec. 31	Capitalization [k]	Surplus	Net Earnings [a]	Percentage Net Earnings to Capitalization
1919 . .	$ 203,107,000	$ 52,310,000	$21,396,000 [f]	10.55
1920 . .	233,304,000	47,325,000	26,864,000 [f]	11.53
1921 . .	232,339,000	30,048,000	4,881,000 [f]	2.10
1922 . .	232,366,000	32,098,000	12,662,000	5.46
1923 . .	231,410,000	32,585,000	12,161,000	5.26
Aggregate	1,132,526,000	194,366,000	77,964,000	
Average .	$ 226,505,200	$ 38,873,200	$15,592,800	6.88

[k] Includes $9,000,000 stock dividend in 1920.
[a] Includes interest on funded debt.
[f] Interest on funded debt estimated.

The Studebaker Corporation

Year Ended Dec. 31	Capitalization [1]	Surplus	Net Earnings	Percentage Net Earnings to Capitalization
1919 . .	$ 55,260,000	$ 20,926,000	$ 9,312,000	16.85
1920 . .	69,800,000	9,822,000	9,822,000	14.07
1921 . .	69,800,000	14,230,000	10,410,000	14.91
1922 . .	84,450,000	10,237,000	18,086,000	21.42
1923 . .	83,600,000	19,674,000	18,342,000	21.94
Aggregate	362,910,000	74,889,000	65,972,000	
Average .	$ 72,582,000	$ 14,977,800	$13,194,400	18.17

[1] Includes $15,000,000 stock dividend in 1920 and $15,000,000 stock dividend in 1922.

TABLE C.—CAPITAL, SURPLUS, UNDIVIDED PROFITS, NET EARNINGS AND RATES OF RETURN OF THE NATIONAL BANKS FOR THE FISCAL YEARS 1919-1923 *

Year Ended June 30	Capital	Surplus	Undivided Profits **	Total Capital and Surplus
1919	$1,115,507,000	$ 869,457,000	$ 372,649,000	$ 1,984,964,000
1920	1,221,453,000	984,977,000	411,525,000	2,206,430,000
1921	1,273,237,000	1,026,270,000	496,155,000	2,299,507,000
1922	1,307,199,000	1,049,228,000	492,434,000	2,356,427,000
1923	1,328,791,000	1,070,600,000	476,205,000	2,399,391,000
Aggregate	$6,246,187,000	$5,000,532,000	$2,248,968,000	$11,246,719,000
Average.	$1,249,237,400	$1,000,106,400	$ 449,793,600	$ 2,249,343,800

Year Ended June 30	Total Capital and Surplus and Undivided Profits	Net Earnings	Percentage Net Earnings to Capital and Surplus	Percentage Net Earnings to Total Capital and Surplus and Undivided Profits
1919	$ 2,357,613,000	$ 240,366,000	12.11	10.20
1920	2,617,955,000	282,083,000	12.78	10.77
1921	2,795,662,000	216,106,000	9.40	7.73
1922	2,848,861,000	183,670,000	7.79	6.45
1923	2,875,596,000	203,488,000	8.48	7.08
Aggregate	$13,495,687,000	$1,125,713,000	....	....
Average.	$ 2,699,137,400	$ 225,142,600	10.01	8.34

* Annual Report of the Comptroller of the Currency, 1923, p. 66.
** *Ibid.*, 1919, p. 303; 1920, p. 303; 1921, p. 12; 1922, p. 18; 1923, p. 27.

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